

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

|   |                                |   |                          |
|---|--------------------------------|---|--------------------------|
| Local Government Type<br><input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other |                                | Local Government Name<br><b>Marshall District Library</b>     | County<br><b>Calhoun</b> |
| Audit Date<br><b>6/30/05</b>  | Opinion Date<br><b>9/15/05</b> | Date Accountant Report Submitted to State:<br><b>11/28/05</b> |                          |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

| We have enclosed the following:   | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations.                                   | ✓        |                 |              |
| Reports on individual federal financial assistance programs (program audits). |          |                 | ✓            |
| Single Audit Reports (ASLGU).   |          |                 | ✓            |

|   |  |                             |                    |
|---|--|-----------------------------|--------------------|
| Certified Public Accountant (Firm Name)<br><b>Abraham &amp; Gaffney, P.C.</b> |  |                             |                    |
| Street Address<br><b>3511 Coolidge Road, Suite 100</b>                        |  | City<br><b>East Lansing</b> | State<br><b>MI</b> |
|   |  | ZIP<br><b>48823</b>         |                    |
| Accountant Signature<br><i>Abraham &amp; Gaffney, P.C.</i>                    |  | Date<br><i>11/28/05</i>     |                    |

**Marshall District Library  
Marshall, Michigan**

**FINANCIAL STATEMENTS**

**June 30, 2005**

Marshall District Library

Marshall, Michigan

June 30, 2005

BOARD OF TRUSTEES

|                      |                |
|----------------------|----------------|
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Marshall District Library

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Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Marshall District Library  
Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Marshall District Library as of and for the year ended June 30, 2005, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Marshall District Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Marshall District Library as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 15, 2005

### **Financial Reporting**

The Marshall District Library, (the "Library") has continued to revise and improve its financial report document as a result of standards set by the Governmental Accounting Standards Board (GASB). The intent of these new standards is to provide citizens, taxpayers, and library users with a better understanding of how the Library's money and other assets are managed.

The standards set by GASB are intended to give the reader of this annual financial report a better understanding of the financial status of the Library by introducing accounting rules and systems that are common in the private sector. This report represents a broad picture of the Library's financial status. Through the comprehensive reporting of assets and liabilities, the reader should have a greater understanding of the Library's financial health.

The Library administration's discussion and analysis of financial performance provides an overview of the Library's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Library's financial statements which immediately follow this section.

### **Financial Highlights**

As discussed in further detail in this section, the following represents the most significant financial highlights for the year ended June 30, 2005:

- The assets of the Library exceeded its liabilities at the end of the most recent fiscal year by \$965,853 (net assets) at the government-wide level.
- The Library's total net assets increased by \$255,544, as a result of current year activity at the government-wide level. This increase was primarily due to the voters' approval of an additional .693 operating millage in November 2004.
- At the close of the fiscal year, the Library's governmental funds reported a combined fund balance of \$387,712.
- Interest income was higher than anticipated due to an increase in available funds for investing.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Marshall District Library as a whole and present a longer-term view of the Library's finances. This long-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the operations of the Marshall District Library in more detail than the government-wide financial statements by providing information about the Library's most significant funds.

Marshall District Library  
Management's Discussion and Analysis  
Year Ended June 30, 2005

**The Library as a Whole**

The following table shows, in condensed format, the net assets as of June 30, 2005 and 2004.

|  | <u>2005</u>              | <u>2004</u>              |
|--|--------------------------|--------------------------|
| <b>Assets</b>                                      |                          |                          |
| Current assets                                     | \$ 412,642               | \$ 237,050               |
| Capital assets, net                                | <u>2,337,464</u>         | <u>2,337,345</u>         |
| Total assets                                       | 2,750,106                | 2,614,395                |
| <b>Liabilities</b>                                 |                          |                          |
| Current liabilities                                | 175,754                  | 166,637                  |
| Noncurrent liabilities                             | <u>1,608,499</u>         | <u>1,737,449</u>         |
| Total liabilities                                  | 1,784,253                | 1,904,086                |
| <b>Net Assets</b>                                  |                          |                          |
| Invested in capital assets,<br>net of related debt | 612,464                  | 537,345                  |
| Restricted   | 42,246                   | 39,333                   |
| Unrestricted                                       | <u>311,143</u>           | <u>133,631</u>           |
| <b>Total net assets</b>                            | <b><u>\$ 965,853</u></b> | <b><u>\$ 710,309</u></b> |

The Library's total net assets were \$965,853 at June 30, 2005, an increase of \$255,544 over the total net assets at the end of the previous fiscal year. Unrestricted net assets (the part of net assets that can be used to finance day-to-day operations) were \$311,143 at the end of the fiscal year, an increase of \$177,512 over the previous year end. The net assets invested in capital assets were at \$612,464, an increase of \$75,119 over the previous fiscal year. These improved balances relate directly to the increased revenue generated as a result of the voters' passage of an increased .693 mils of operating millage in November 2004.

Marshall District Library  
Management's Discussion and Analysis  
Year Ended June 30, 2005

The following table shows the changes in net assets during the current year.

|  | <u>2005</u>              | <u>2004</u>             |
|--|--------------------------|-------------------------|
| <b>Revenues</b>                          |                          |                         |
| Program revenue:                         |                          |                         |
| Charges for services                     | \$ 18,779                | \$ 17,144               |
| Operating grants and contributions       | 21,275                   | 30,089                  |
| General Revenue:                         |                          |                         |
| Property taxes                           | 955,110                  | 632,326                 |
| State shared revenue                     | 29,740                   | 33,897                  |
| Penal Fines                              | 64,618                   | 69,824                  |
| Investment earnings                      | 6,054                    | 2,304                   |
| Miscellaneous                            | <u>4,193</u>             | <u>7,288</u>            |
| Total revenues                           | 1,099,769                | 792,872                 |
| <b>Program Expenses</b>                  |                          |                         |
| Library services/recreation and cultural | 748,642                  | 663,303                 |
| Other expense                            | 1,895                    | 0                       |
| Interest on long-term debt               | <u>93,688</u>            | <u>101,423</u>          |
| Total expenses                           | 844,225                  | 764,726                 |
| <b>Change in Net Assets</b>              | <b><u>\$ 255,544</u></b> | <b><u>\$ 28,146</u></b> |

**Governmental Activities**

The Library's governmental revenues totaled \$1,099,769 with the greatest revenue source being property taxes levied by the district. Property taxes make up approximately 90 percent of total governmental revenue.

The Library incurred expenses of \$844,225 during the year. As a special purpose government, all of the governmental expenses incurred, other than expenses related to the repayment of debt, are associated with the library service function.

**The Library's Funds**

The analysis of the Library's major funds begins on page 3, following the government-wide financial statements. The fund financial statements provide detailed information about specific funds, not the Marshall District Library as a whole. The Marshall District Library's Board of Trustees may create funds to help manage money for specific purposes as well as to show accountability for certain activities. The Library's major funds for the fiscal year ended June 30, 2005 were the General Fund, the Hughes Trust Fund, and the Debt Service Fund.



Marshall District Library  
Management's Discussion and Analysis  
Year Ended June 30, 2005

The General Fund pays for the Library's governmental services. The sole service provided during the fiscal year was library service, which incurred expenditures of \$714,394 for the fiscal year. The Hughes Trust Fund is used to supplement the General Fund operations, and the revenues may only be expended on goods or services allowed by the trust. The Hughes Trust Fund incurred expenditures of \$4,776 during the fiscal year. The Debt Service Fund pays the principal and interest as it becomes due for the Library's General Obligation Bonds payable.

### **Budgetary Highlights**

Following the voters' approval in November 2004 of an additional .693 mill for operating support, the Marshall District Library was able to restore services previously limited by insufficient tax revenues. Previously reduced Library service hours were expanded, and postponed building maintenance projects were scheduled for completion.

The Library Board of Trustees amended the operating budget to reflect the increased tax revenues. Significant funds were designated for the purchase of additional public access computer equipment. Supervisory staff positions held open due to insufficient funding were filled and adequate staffing levels were restored.

At the end of the fiscal year the Marshall District Library finds itself in a favorable financial position with increased funding available for key services and investment potential for future needs.

### **Capital Assets and Debt Administration**

At the end of the fiscal year, the Library had \$2,337,464 invested in land, building and improvements, equipment, furniture, and books (net of accumulated depreciation). The main capital assets added were \$19,794 in building improvements, \$24,417 in equipment and furniture, and \$71,014 in collections (i.e., books, periodicals, audio, video, etc.)

No debt was issued during the fiscal year. The Library made principal payments on the General Obligation Bonds outstanding of \$115,000. The twenty year General Obligation Bonds for the Library's \$2,535,000 building project in 1996 have reached midpoint in their life; the bond issue is scheduled to be totally repaid in the year 2016.

The only other long-term liability the Library had at June 30, 2005 was for compensated absences (as detailed in Note F) in the amount of \$19,948, a decrease of \$8,514 in the current year due primarily to the retirement of the previous Library Director.

### **Contacting the Library's Management**

This financial report is intended to provide our citizens, taxpayers, and library users with a general overview of the Library's finances and demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Library Director's office at 124 West Green Street, Marshall, Michigan 49068.

## **BASIC FINANCIAL STATEMENTS**

Marshall District Library  
STATEMENT OF NET ASSETS  
June 30, 2005

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS</b>                                   |                                    |
| Current assets                                  |                                    |
| Cash and cash equivalents                       | \$ 308,490                         |
| Investments                                     | 69,906                             |
| Accrued interest receivable                     | 243                                |
| Due from other governmental units               | 29,004                             |
| Prepaid expenses                                | <u>4,999</u>                       |
| Total current assets                            | 412,642                            |
| Noncurrent assets                               |                                    |
| Capital assets, not being depreciated           | 11,000                             |
| Capital assets, net of accumulated depreciation | <u>2,326,464</u>                   |
| Total noncurrent assets                         | <u>2,337,464</u>                   |
| TOTAL ASSETS                                    | 2,750,106                          |
| <b>LIABILITIES</b>                              |                                    |
| Current liabilities                             |                                    |
| Accounts payable                                | 10,749                             |
| Other accrued liabilities                       | 14,181                             |
| Accrued interest payable                        | 14,375                             |
| Current portion of compensated absences         | 11,449                             |
| Current portion of long-term debt               | <u>125,000</u>                     |
| Total current liabilities                       | 175,754                            |
| Noncurrent liabilities                          |                                    |
| Noncurrent portion of compensated absences      | 8,499                              |
| Noncurrent portion of long-term debt            | <u>1,600,000</u>                   |
| Total noncurrent liabilities                    | <u>1,608,499</u>                   |
| TOTAL LIABILITIES                               | <u>1,784,253</u>                   |
| <b>NET ASSETS</b>                               |                                    |
| Invested in capital assets, net of related debt | 612,464                            |
| Restricted for:                                 |                                    |
| Trust activities                                | 5,750                              |
| Debt service                                    | 36,496                             |
| Unrestricted                                    | <u>311,143</u>                     |
| TOTAL NET ASSETS                                | <u>\$ 965,853</u>                  |

See accompanying notes to financial statements.

## Year Ended June 30, 2005

See accompanying notes to financial statements.

## Marshall District Library

## GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2005

|  | General           | Special Revenue<br>Hughes<br>Trust | Debt Service<br>1996 Building<br>and Site Bonds |
|--|-------------------|------------------------------------|---|
| <b>ASSETS</b>                                  |                   |                                    |   |
| Cash and cash equivalents                      | \$ 292,433        | \$ 10,307                          | \$ -  |
| Investments                                    | 1,516             | 55,145                             | 13,245  |
| Accrued interest receivable                    | -                 | 243                                | -   |
| Due from other funds                           | 808               | -                                  | 37,626  |
| Due from other governmental units              | 29,004            | -                                  | -   |
| Prepaid expenditures                           | 4,999             | -                                  | -   |
| <b>TOTAL ASSETS</b>                            | <b>\$ 328,760</b> | <b>\$ 65,695</b>                   | <b>\$ 50,871</b>                                |
| <b>LIABILITIES AND FUND BALANCES</b>           |                   |                                    |   |
| <b>LIABILITIES</b>                             |                   |                                    |   |
| Accounts payable                               | \$ 10,749         | \$ -                               | \$ -  |
| Accrued payroll                                | 14,181            | -                                  | -   |
| Due to other funds                             | 37,626            | 808                                | -   |
| <b>TOTAL LIABILITIES</b>                       | <b>62,556</b>     | <b>808</b>                         | <b>-0-</b>                                      |
| <b>FUND BALANCES</b>                           |                   |                                    |   |
| Reserved for                                   |                   |                                    |   |
| Hughes nonexpendable trust                     | -                 | -                                  | -   |
| Unreserved                                     |                   |                                    |   |
| Designated for debt service                    | -                 | -                                  | 50,871  |
| Undesignated, reported in                      |                   |                                    |   |
| General fund                                   | 266,204           | -                                  | -   |
| Special revenue funds                          | -                 | 64,887                             | -   |
| <b>TOTAL FUND BALANCES</b>                     | <b>266,204</b>    | <b>64,887</b>                      | <b>50,871</b>                                   |
| <b>TOTAL LIABILITIES<br/>AND FUND BALANCES</b> | <b>\$ 328,760</b> | <b>\$ 65,695</b>                   | <b>\$ 50,871</b>                                |

See accompanying notes to financial statements.

| Nonmajor<br>Governmental<br>Fund<br>(Hughes<br>Permanent<br>Fund) | Total<br>Governmental<br>Funds |
|---|--------------------------------|
| \$ 5,750  | \$ 308,490                     |
| -   | 69,906                         |
| -   | 243                            |
| -   | 38,434                         |
| -   | 29,004                         |
| -   | 4,999                          |
| <u>\$ 5,750</u>   | <u>\$ 451,076</u>              |
| \$ -  | \$ 10,749                      |
| -   | 14,181                         |
| -   | 38,434                         |
| -0-   | 63,364                         |
| 5,750   | 5,750                          |
| -   | 50,871                         |
| -   | 266,204                        |
| -   | 64,887                         |
| <u>5,750</u>  | <u>387,712</u>                 |
| <u>\$ 5,750</u>   | <u>\$ 451,076</u>              |

Marshall District Library

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS

June 30, 2005

**Total fund balance - governmental funds** **\$ 387,712**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources  
and therefore are not reported as assets in the governmental funds.

|                               |                    |           |
|-------------------------------|--------------------|-----------|
| The cost of capital assets is | \$ 3,876,854       |           |
| Accumulated depreciation is   | <u>(1,539,390)</u> |           |
| Capital assets, net           |                    | 2,337,464 |

Long-term liabilities are not due and payable in the current period and  
therefore are not reported in the Governmental Funds Balance Sheet.  
Long-term liabilities at year-end consist of:

|                          |               |                    |
|--------------------------|---------------|--------------------|
| General obligation bonds | 1,725,000     |                    |
| Accrued interest payable | 14,375        |                    |
| Compensated absences     | <u>19,948</u> |                    |
|                          |               | <u>(1,759,323)</u> |

**Net assets of governmental activities** **\$ 965,853**

See accompanying notes to financial statements.

Marshall District Library

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2005

|  | General    | Special Revenue<br>Hughes<br>Trust | Debt Service<br>1996 Building<br>and Site Bonds |
|--|------------|------------------------------------|---|
| REVENUES   |            |                                    |   |
| Taxes  | \$ 743,972 | \$ -                               | \$ 211,138                                      |
| Intergovernmental  | 42,273     | -                                  | -   |
| Fines and forfeits   | 64,618     | -                                  | -   |
| Charges for services   | 18,779     | -                                  | -   |
| Interest   | 4,867      | 406                                | 463   |
| Other  | 4,193      | 8,742                              | -   |
| TOTAL REVENUES   | 878,702    | 9,148                              | 211,601   |
| EXPENDITURES   |            |                                    |   |
| Current  |            |                                    |   |
| Recreation and cultural  | 593,266    | 2,881                              | -   |
| Other  | -          | 1,895                              | -   |
| Debt service   | -          | -                                  | 210,006   |
| Capital outlay   | 121,128    | -                                  | -   |
| TOTAL EXPENDITURES   | 714,394    | 4,776                              | 210,006   |
| EXCESS OF REVENUES OVER<br>EXPENDITURES  | 164,308    | 4,372                              | 1,595   |
| OTHER FINANCING SOURCES (USES)   |            |                                    |   |
| Transfers in   | -          | 318                                | -   |
| Transfers out  | -          | -                                  | -   |
| TOTAL OTHER FINANCING SOURCES (USES)   | -0-        | 318                                | -0-   |
| EXCESS OF REVENUES AND OTHER<br>FINANCING SOURCES OVER<br>EXPENDITURES AND OTHER<br>FINANCING USES | 164,308    | 4,690                              | 1,595   |
| Fund balances, beginning of year   | 101,896    | 60,197                             | 49,276  |
| Fund balances, end of year   | \$ 266,204 | \$ 64,887                          | \$ 50,871                                       |

See accompanying notes to financial statements.



| Nonmajor<br>Governmental<br>Fund<br>(Hughes<br>Permanent<br>Fund) | Total<br>Governmental<br>Funds |
|---|--------------------------------|
| \$ -  | \$ 955,110                     |
| -   | 42,273                         |
| -   | 64,618                         |
| -   | 18,779                         |
| 318   | 6,054                          |
| -   | 12,935                         |
| 318   | 1,099,769                      |
| -   | 596,147                        |
| -   | 1,895                          |
| -   | 210,006                        |
| -   | 121,128                        |
| -0-   | 929,176                        |
| 318   | 170,593                        |
| -   | 318                            |
| (318)   | (318)                          |
| (318)   | -0-                            |
| -   | 170,593                        |
| 5,750   | 217,119                        |
| \$ 5,750  | \$ 387,712                     |

Marshall District Library

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2005

**Net change in fund balances - total governmental funds** **\$ 170,593**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

|  |                  |          |
|--|------------------|----------|
| Capital outlay                                     | \$ 115,225       |          |
| Depreciation expense                               | <u>(155,106)</u> |          |
| Excess of depreciation expense over capital outlay |                  | (39,881) |

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

|                           |         |
|---------------------------|---------|
| Bond principal retirement | 115,000 |
|---------------------------|---------|

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

|  |              |              |
|--|--------------|--------------|
| Decrease in accrued interest payable     | 1,318        |              |
| Decrease in accrued compensated absences | <u>8,514</u> |              |
|  |              | <u>9,832</u> |

**Change in net assets of governmental activities** **\$ 255,544**

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service and special financing relationships. The library is a District library formed pursuant to the District Library Establishment Act (1989 Public Act 24) by an agreement between the City of Marshall and the townships of Eckford, Fredonia, Marengo and Marshall. The Library has a separate tax millage and governing board.

The Marshall District Library's goal is to provide materials and services, which will furnish opportunities for educational, informational, recreational, and cultural needs of the community. The Library's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*; and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present all financial activities of the Marshall District Library. The Marshall District Library has no activities that would be classified as component units.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the Library as a whole.

The statement of activities presents the direct functional expenses of the Library and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients for goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Library.

FUND FINANCIAL STATEMENTS

The fund financial statements present the Library's individual major funds and aggregated nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The major funds of the Library are:

- a. General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources not accounted for in other funds. General fund activities are financed by revenue from general property taxes, penal fines, and other sources.
- b. 1996 Building and Site Bonds - The 1996 Building and Site Bonds fund is a debt service fund used to account for the annual payment of principal, interest and expenses in connection with long-term debt for the Library.
- c. Hughes Trust - The Hughes Trust Fund is a special revenue fund used to account for donations to the Library and the proper expense of these donations.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

3. Measurement Focus

The government-wide financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements used the modified accrual basis of accounting. The government-wide financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Library before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenses.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. Revenues susceptible to accrual include property taxes, and state aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt which are recorded when due.

5. Budgets and Budgetary Accounting

Budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the basis used to reflect actual results. The Library employs the following procedures in establishing the budgetary data reflected in the financial statements.

The Library does not maintain a formalized encumbrance accounting system. All annual appropriations lapse at fiscal year end.

- a. The Library prepares the proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and resources to finance them.
- b. Prior to incurring significant expenditures, the budget is legally enacted through Library Board action.
- c. The budget is legally adopted at the function level and maintained at the activity level.
- d. Budgeted amounts are reported as originally adopted and as amended by the Library Board during the year.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of money market checking, savings accounts, and pooled investment trust.

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase.

7. Receivables

Receivables consist of penal fines, interest, and other amounts due from organizations or other governments.

8. Property Taxes

The participating City and Townships levy and collect property taxes for the Library. As the Library tax is collected it is remitted by the City and Township Treasurers. At March 1 each year, the City and Townships settle their delinquent taxes with the County Treasurer and the unpaid real property tax is remitted to the Library by the County Treasurer in Calhoun County. Delinquent personal property taxes are retained by the Treasurers for subsequent collection. The Library is permitted to levy up to \$3 per \$1,000 of assessed valuation on property within the District. The voters approved a levy of 1.693 mills for general operating and 1.000 mills for building debt. The building debt is authorized for twenty (20) years commencing February 13, 1997. For the year ended June 30, 2005, the Library levied 1.6711 mills for operations and .4700 mills for building debt, respectively.

9. Capital Assets

Capital assets include land, buildings, equipment, and collections and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in the governmental funds and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

|                            |               |
|----------------------------|---------------|
| Buildings and improvements | 10 - 40 years |
| Equipment and furniture    | 3 - 20 years  |

10. Compensated Absences

In accordance with the Library personnel policies, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts.

Vested vacation and sick leave earned as of June 30, 2005, including related payroll taxes, is recorded in the government-wide financial statements.

11. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE A: DESCRIPTION OF LIBRARY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

11. Long-Term Obligations - continued

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the General Fund for a payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

12. Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide financial statements.

13. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

In accordance with Michigan Compiled Laws, the Marshall District Library is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

# Marshall District Library

## NOTES TO FINANCIAL STATEMENTS

June 30, 2005

### **NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

#### Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Library's deposits may not be returned to it.

Deposits of the Library are at federally insured banks located in the State of Michigan with all accounts maintained in the name of Marshall District Library. As of June 30, 2005, the carrying amount of the Library's deposits was \$308,390 and the bank balance was \$317,187, of which \$116,057 was covered by Federal depository insurance. The balance of \$201,130 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the Library held as cash, cash equivalents, and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

As of June 30, 2005, the carrying amount and bank balances for each type of bank account are as follows:

| <u>Account Type</u> | <u>Carrying Amount</u> | <u>Bank Balance</u> |
|---------------------|------------------------|---------------------|
| Checking            | \$ 292,333             | \$ 301,130          |
| Savings             | <u>16,057</u>          | <u>16,057</u>       |
| TOTAL               | <u>\$ 308,390</u>      | <u>\$ 317,187</u>   |

#### Investments

As of June 30, 2005, the carrying and market value for the investment is as follows:

| <u>Investment Type</u>                | <u>Carrying Amount</u> | <u>Market Value</u> | <u>Weighted Average Maturity (Days)</u> |
|---------------------------------------|------------------------|---------------------|---|
| Uncategorized pooled investment funds |                        |                     |   |
| Public Funds Investment Trust         | \$ 14,761              | \$ 14,761           | Less than 90 days                       |
| Certificates of deposit               | <u>55,145</u>          | <u>55,145</u>       | 249 days                                |
|                                       | <u>\$ 69,906</u>       | <u>\$ 69,906</u>    |   |

The cash and cash equivalents captions in the basic financial statements includes \$100 in imprest cash.

#### Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2005, the Library's investment in the Public Funds Investment Trust was given an AAA rating and the certificates of deposit were not rated.

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED**

Interest rate risk

The Library has not adopted a policy that indicates how the Library will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The Library has not adopted a policy that indicates how the Library will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Library's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The Library has not adopted a policy that indicates how the Library will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments of collateral securities that are in possession of an outside party.

**NOTE C: INTERFUND RECEIVABLES AND PAYABLES**

The amount of interfund receivables and payables at June 30, 2005, are as follows:

|  |                  |
|--|------------------|
| Due to General Fund from:                      |                  |
| Hughes Trust Fund                              | \$ <u>808</u>    |
| Due to 1996 Building and Site Bonds Fund from: |                  |
| General Fund                                   | \$ <u>37,626</u> |

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

**NOTE D: INTERFUND TRANSFERS**

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

|                                     |               |
|-------------------------------------|---------------|
| Transfer to Hughes Trust Fund from: |               |
| Nonmajor governmental fund          | \$ <u>318</u> |



Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE E: CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

|  | Balance<br>July 1, 2004 | Additions           | Deletions         | Balance<br>June 30, 2005 |
|--|-------------------------|---------------------|-------------------|--------------------------|
| Governmental Activities                    |                         |                     |                   |                          |
| Capital assets, not being depreciated      |                         |                     |                   |                          |
| Land                                       | \$ 11,000               | \$ -                | \$ -              | \$ 11,000                |
| Capital assets, being depreciated          |                         |                     |                   |                          |
| Buildings and additions                    | 2,580,706               | 19,794              | -                 | 2,600,500                |
| Equipment and furniture                    | 130,383                 | 24,417              | -                 | 154,800                  |
| Collections                                | <u>1,067,936</u>        | <u>71,014</u>       | <u>28,396</u>     | <u>1,110,554</u>         |
| Total capital assets,<br>being depreciated | 3,779,025               | 115,225             | 28,396            | 3,865,854                |
| Less accumulated depreciation for:         |                         |                     |                   |                          |
| Buildings and additions                    | ( 437,241 )             | ( 66,198 )          | -                 | ( 503,439 )              |
| Equipment and furniture                    | ( 90,071 )              | ( 16,626 )          | -                 | ( 106,697 )              |
| Collections                                | <u>( 885,368 )</u>      | <u>( 72,282 )</u>   | <u>( 28,396 )</u> | <u>( 929,254 )</u>       |
| Total accumulated depreciation             | <u>( 1,412,680 )</u>    | <u>( 155,106 )</u>  | <u>( 28,396 )</u> | <u>( 1,539,390 )</u>     |
| Net capital assets,<br>being depreciated   | <u>2,366,345</u>        | <u>( 39,881 )</u>   | <u>( 28,396 )</u> | <u>2,326,464</u>         |
| Capital assets, net                        | <u>\$ 2,377,345</u>     | <u>\$( 39,881 )</u> | <u>\$ -0-</u>     | <u>\$ 2,337,464</u>      |

**NOTE F: LONG-TERM DEBT**

The following is a summary of changes in long-term debt (including current portions) of the Library for the year ended June 30, 2005.

|                              | Balance<br>July 1, 2004 | Additions     | Deletions         | Balance<br>June 30, 2005 | Amounts<br>Due Within<br>One Year |
|------------------------------|-------------------------|---------------|-------------------|--------------------------|-----------------------------------|
| 1996 Building and Site Bonds | \$ 1,840,000            | \$ -          | \$ 115,000        | \$ 1,725,000             | \$ 125,000                        |
| Compensated absences         | <u>28,462</u>           | <u>-</u>      | <u>8,514</u>      | <u>19,948</u>            | <u>11,449</u>                     |
|                              | <u>\$ 1,868,462</u>     | <u>\$ -0-</u> | <u>\$ 123,514</u> | <u>\$ 1,744,948</u>      | <u>\$ 136,449</u>                 |

Significant details regarding outstanding long-term debt (including current portions) are presented below.

General Obligation Bonds

\$2,535,000 Library Building and Site Bonds dated May 1, 1996, due in annual installments ranging from \$125,000 to \$180,000 through May 1, 2016, with interest of 5.00 percent, payable semi annually.

\$ 1,725,000

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE F: LONG-TERM DEBT - CONTINUED**

The annual requirements to pay the debt principal and interest outstanding are presented below.

| <u>Year Ending<br/>June 30,</u> | <u>Principal</u>    | <u>Interest</u>   |
|---------------------------------|---------------------|-------------------|
| 2006                            | \$ 125,000          | \$ 86,250         |
| 2007                            | 130,000             | 80,000            |
| 2008                            | 135,000             | 73,500            |
| 2009                            | 145,000             | 66,750            |
| 2010                            | 150,000             | 59,500            |
| 2011-2015                       | 860,000             | 176,750           |
| 2016                            | <u>180,000</u>      | <u>9,000</u>      |
|                                 | <u>\$ 1,725,000</u> | <u>\$ 551,750</u> |

Compensated Absences - In accordance with Library personnel policies, individual employees have rights upon termination of employment to receive payment for unused vacation and sick leave under the formulas and conditions specified in the personnel policies. The dollar amount of these rights including related payroll taxes amounted to \$19,948 for compensated absences at June 30, 2005. This amount has been recorded in the government-wide financial statements.

**NOTE G: RISK MANAGEMENT**

The Library participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The Department also participates in a State Pool, the Michigan Municipal Workers Compensation Fund, with other municipalities for worker's compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The Library has no liability for additional assessments based on the claims filed against the pools nor do they have any right to dividends.

**NOTE H: DEFINED BENEFIT PENSION PLAN**

Plan Description

The Library participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible employees of the Library. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Library Board. The plan requires a contribution from the Director at 3.00 percent (under the B-4 benefit program) and the Library contributes the remaining amounts necessary to fund the system.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE H: DEFINED BENEFIT PENSION PLAN - CONTINUED**

Annual Pension Cost

For the year ended June 30, 2005, the Library's annual pension cost of \$7,589 for the plan was equal to the Library's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry actual age cost method. Actual required contributions are based on current monthly payroll times an actuarially computed employer contribution rate. Significant actuarial assumptions used include a (a) 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% each year after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty-two (32) years.

Three (3) year trend information

|   | Year Ended December 31, |             |             |
|---|-------------------------|-------------|-------------|
|   | <u>2002</u>             | <u>2003</u> | <u>2004</u> |
| Actuarial value of assets               | \$ 189,625              | \$ 217,126  | \$ 242,933  |
| Actuarial accrued liability (AAL)       | 206,111                 | 218,938     | 242,625     |
| Unfunded (Overfunded) AAL               | 16,486                  | 1,812       | (308)       |
| Funded ratio                            | 92%                     | 99%         | 100%        |
| Covered payroll                         | 64,225                  | 66,282      | 66,385      |
| UAAL as a percentage of covered payroll | 26%                     | 3%          | 0%          |

  

|                               | Year Ended June 30, |             |             |
|-------------------------------|---------------------|-------------|-------------|
|                               | <u>2003</u>         | <u>2004</u> | <u>2005</u> |
| Annual pension cost           | \$ 7,245            | \$ 7,981    | \$ 7,589    |
| Percentage of APC contributed | 100%                | 100%        | 100%        |
| Net pension obligation        | -                   | -           | -           |

**NOTE I: DEFINED CONTRIBUTION PLAN**

The Library provides a defined contribution plan created in accordance with Internal Revenue Code Section 457, to its employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The Library contributes \$500 annually for all employees meeting requirements established through the personnel policies adopted by the Library Board. In accordance with these requirements, the Library contributed \$2,000 for the year ended June 30, 2005.

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the budgetary comparison schedules presented as required supplementary information, the Library's budgeted expenditures in the General and major Special Revenue Funds have been shown at the activity level. The approved budgets of the Library have been adopted at the function level.

Marshall District Library

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

**NOTE J: EXCESS OF EXPENDITURES OVER APPROPRIATIONS - CONTINUED**

During the year ended June 30, 2005, the Library incurred expenditures in the Special Revenue Fund in excess of the amounts appropriated as follows:

|                         | <u>Amounts<br/>Appropriated</u> | <u>Amounts<br/>Expended</u> | <u>Variance</u> |
|-------------------------|---------------------------------|-----------------------------|-----------------|
| Special Revenue Fund    |                                 |                             |                 |
| Recreation and cultural | \$ -                            | \$ 2,881                    | \$ 2,881        |
| Other                   | -                               | 1,895                       | 1,895           |

**NOTE K: FUND BALANCE RESERVES AND DESIGNATIONS**

Reserved fund balances are used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use.

The following is a fund balance reserve as of June 30, 2005:

|                               |                 |
|-------------------------------|-----------------|
| Hughes Permanent Fund         |                 |
| Reserved for trust activities | \$ <u>5,750</u> |

The following is a fund balance designation as of June 30, 2005:

|                             |                  |
|-----------------------------|------------------|
| 1996 Building and Site Fund |                  |
| Designated for debt service | \$ <u>50,871</u> |

**NOTE L: POST-EMPLOYMENT BENEFITS OTHER THAN PENSION BENEFITS**

The Library provides medical coverage in accordance with current policies to eligible retirees and dependents at no cost to the participants. To qualify, retirees must be receiving pension payments from a retirement system maintained by the Library or another system approved by the Library. The expense is recorded as incurred. Currently, the Library has one employee participating in the benefits and the expense for the year ended June 30, 2005 was \$3,829.

**UPCOMING REPORTING CHANGE**

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting By Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## Marshall District Library

## General Fund

## BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

|   | Budgeted Amounts |            |            | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|------------------|------------|------------|---|
|   | Original         | Final      | Actual     |   |
| REVENUES                                  |                  |            |            |   |
| Taxes                                     | \$ 436,975       | \$ 747,975 | \$ 743,972 | \$ (4,003)  |
| Intergovernmental                         |                  |            |            |   |
| State                                     | 31,313           | 30,314     | 29,740     | (574)   |
| Local                                     | 10,910           | 10,910     | 12,533     | 1,623   |
| Library fees and fines                    | 18,000           | 18,000     | 18,779     | 779   |
| Interest                                  | 1,500            | 2,000      | 4,867      | 2,867   |
| Fines and forfeits                        | 68,000           | 68,000     | 64,618     | (3,382)   |
| Other                                     | 25,000           | 2,000      | 4,193      | 2,193   |
| TOTAL REVENUES                            | 591,698          | 879,199    | 878,702    | (497)   |
| EXPENDITURES                              |                  |            |            |   |
| Current                                   |                  |            |            |   |
| Recreation and cultural                   |                  |            |            |   |
| Salaries and wages                        | 321,134          | 379,736    | 359,658    | 20,078  |
| Fringe benefits                           | 83,111           | 100,150    | 94,488     | 5,662   |
| Supplies                                  | 16,000           | 16,000     | 17,509     | (1,509)   |
| Contracted services                       | 28,402           | 48,000     | 56,040     | (8,040)   |
| Insurance                                 | 5,951            | 6,500      | 5,971      | 529   |
| Communications                            | 4,500            | 5,000      | 5,029      | (29)  |
| Utilities                                 | 30,000           | 30,000     | 26,001     | 3,999   |
| Transportation and training               | 2,000            | 4,000      | 1,398      | 2,602   |
| Repairs and maintenance                   | 14,500           | 31,000     | 27,172     | 3,828   |
| Total recreation and cultural             | 505,598          | 620,386    | 593,266    | 27,120  |
| Capital outlay                            |                  |            |            |   |
| Books, other collections, and memberships | 75,400           | 80,000     | 72,083     | 7,917   |
| Equipment                                 | 10,700           | 20,000     | 49,045     | (29,045)  |
| Total capital outlay                      | 86,100           | 100,000    | 121,128    | (21,128)  |
| TOTAL EXPENDITURES                        | 591,698          | 720,386    | 714,394    | 5,992   |
| EXCESS OF REVENUES<br>OVER EXPENDITURES   | -0-              | 158,813    | 164,308    | 5,495   |
| Fund balance, beginning of year           | 101,896          | 101,896    | 101,896    | -0-   |
| Fund balance, end of year                 | \$ 101,896       | \$ 260,709 | \$ 266,204 | \$ 5,495  |

Marshall District Library

Hughes Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

|  | <u>Budgeted Amounts</u> |                  |                  | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|-------------------------|------------------|------------------|---|
|  | <u>Original</u>         | <u>Final</u>     | <u>Actual</u>    |   |
| REVENUES   |                         |                  |                  |   |
| Interest   | \$ -                    | \$ -             | \$ 406           | \$ 406  |
| Other  |                         |                  |                  |   |
| Contributions  | -                       | -                | 8,742            | 8,742   |
| TOTAL REVENUES   | -0-                     | -0-              | 9,148            | 9,148   |
| EXPENDITURES   |                         |                  |                  |   |
| Current  |                         |                  |                  |   |
| Recreation and cultural  | -                       | -                | 2,881            | (2,881)   |
| Other  | -                       | -                | 1,895            | (1,895)   |
| TOTAL EXPENDITURES   | -0-                     | -0-              | 4,776            | (4,776)   |
| EXCESS OF REVENUES OVER<br>EXPENDITURES  | -0-                     | -0-              | 4,372            | 4,372   |
| OTHER FINANCING SOURCES  |                         |                  |                  |   |
| Transfers in   | -                       | -                | 318              | 318   |
| EXCESS OF REVENUES AND OTHER<br>FINANCING SOURCES OVER<br>EXPENDITURES AND OTHER<br>FINANCING USES | -0-                     | -0-              | 4,690            | 4,690   |
| Fund balances, beginning of year   | 60,197                  | 60,197           | 60,197           | -0-   |
| Fund balances, end of year   | <u>\$ 60,197</u>        | <u>\$ 60,197</u> | <u>\$ 64,887</u> | <u>\$ 4,372</u>   |

Principals

Dale J. Abraham, CPA  
Michael T. Gaffney, CPA  
Steven R. Kirinovic, CPA  
Aaron M. Stevens, CPA  
Eric J. Glashouwer, CPA



3511 Coolidge Road  
Suite 100  
East Lansing, MI 48823  
(517) 351-6836  
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable President and  
Board of Trustees  
Marshall District Library  
Marshall, Michigan

As you know, we have recently completed our audit of the records of the Marshall District Library as of and for the year ended June 30, 2005. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal controls and our discussions with management. These weaknesses are not considered reportable conditions in relation to the basic financial statements of the Marshall District Library but may be areas of possible improvement.

1. The Library circulation desk should reconcile cash receipts with a summary or report of daily activity.

During our discussions with management, we noted the circulation desk does not reconcile monies received for Library services to any type of report or receipt book at the end of the day.

We suggest the Library establish a receipting system where the daily receipts for services are reconciled to a report or receipt copies to better track and control the cash receipts collected.

2. The Library should establish a capitalization threshold in order to track material assets purchased.

During the course of our audit, it was noted that the Library does not have a capitalization threshold policy in place. This policy would set forth a dollar threshold for items purchased by the Library that would be considered material, long-lived assets which should be capitalized and depreciated. This issue has been noted and reported in our previous audit comments.

We suggest the Library adopt a capitalization threshold policy.

3. Budgets should be monitored and amended when necessary.

As noted in the basic financial statements, some of the activities of the Library exceeded the amounts appropriated. The variances noted were in the Special Revenue Fund.

The Michigan Public Act 621 of 1978, as amended, provides that the Library adopt formal budgets for all applicable General and Special Revenue Funds, and shall not incur expenditures in excess of the amounts appropriated. Also, the Public Act requires amendments to be performed prior to incurring additional expenditures.

We suggest the Library monitor expenditures against adopted budgets and make appropriate budget amendments in a timely fashion.



4. The Library should request additional information from the participating municipalities related to property tax receipts.

During our analysis of property tax revenue for the General and Debt Service Funds, we noted that the supporting documentation from the participating governmental entities that accompanies the property tax collections (if any) does not always provide the necessary details for the Library to be able to appropriately receipt the revenue into the general ledger. Several of the remittances of property tax collections did not provide the appropriate breakdown between the operating revenue and the debt service revenue.

We suggest that the Library request a remittance advice accompany all future property tax collections that provide sufficient details for the Library to receipt the revenue into the appropriate funds. We also suggest that the Library request additional information from the participating governmental entities, such as the taxable values for any IFT or CFT tax rolls, DDA or LDFA captures, and any Board of Review adjustments that are made throughout the year. The Library should calculate the amount of tax revenue that they should be receiving from each of the entities and compare that to the amounts actually received.

5. The Board should amend the Library's investment policy to address the disclosure requirements of GASB Statement No. 40.

During the course of our audit and through discussions with administration, it was noted that the Library has not amended their investment policy to address the reporting requirements of GASB Statement No. 40.

Deposit and investment resources often represent significant assets of the Library's governmental funds. These resources are necessary for the delivery of the Library's services and programs. Effective for the year ended June 30, 2005, GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Library's ability to provide services and meet its obligations as they become due.

We suggest the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Such policies are required to be disclosed in the notes to the Library's financial statements by GASB Statement No. 40.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the basic financial statements dated September 15, 2005.

This report is intended solely for the information of management and members of the Board of the Marshall District Library and is not intended to be and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation to us during our audit. We are available to discuss any issues with you and to provide assistance in the implementation of improvements.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

September 15, 2005